FULTON FINANCIAL CORP
Form 10-Q
August 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20459

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014, or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-10587
FULTON FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	23-2195389 (I.R.S. Employer Identification No.)
One Penn Square, P.O. Box 4887, Lancaster, Pennsylvania (Address of principal executive offices)	17604 (Zip Code)

(717) 291-2411
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:
Common Stock, $2.50 Par Value –187,792,000 shares outstanding as of July 31, 2014.

1

FULTON FINANCIAL CORPORATION
FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014
INDEX

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$258,837	$218,540
Interest-bearing deposits with other banks	222,894	163,988
Federal Reserve Bank and Federal Home Loan Bank stock	82,624	84,173
Loans held for sale	36,079	21,351
Available for sale investment securities	2,497,776	2,568,434
Loans, net of unearned income	12,839,511	12,782,220
Less: Allowance for loan losses	(191,685)	(202,780)
Net Loans	12,647,826	12,579,440
Premises and equipment	225,168	226,021
Accrued interest receivable	42,116	44,037
Goodwill and intangible assets	532,432	533,076
Other assets	487,887	495,574
Total Assets	$17,033,639	$16,934,634
LIABILITIES		
Deposits:		
Noninterest-bearing	$3,484,125	$3,283,172
Interest-bearing	9,209,534	9,208,014
Total Deposits	12,693,659	12,491,186
Short-term borrowings:		
Federal funds purchased	384,011	582,436
Other short-term borrowings	624,296	676,193
Total Short-Term Borrowings	1,008,307	1,258,629
Accrued interest payable	16,647	15,218
Other liabilities	246,831	222,830
Federal Home Loan Bank advances and long-term debt	968,395	883,584
Total Liabilities	14,933,839	14,871,447
SHAREHOLDERS' EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 218.0 million shares issued in 2014 and 217.8 million shares issued in 2013	545,066	544,568
Additional paid-in capital	1,436,759	1,432,974
Retained earnings	514,988	463,843
Accumulated other comprehensive loss	(9,161)	(37,341)
Treasury stock, at cost, 29.0 million shares in 2014 and 25.2 million shares in 2013	(387,852)	(340,857)
Total Shareholders' Equity	2,099,800	2,063,187
Total Liabilities and Shareholders' Equity	$17,033,639	$16,934,634

See Notes to Consolidated Financial Statements

3

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
INTEREST INCOME				
Loans, including fees	$131,440	$135,032	$263,270	$269,162
Investment securities:				
Taxable	12,418	14,516	25,684	27,913
Tax-exempt	2,298	2,343	4,646	4,824
Dividends	325	364	657	754
Loans held for sale	214	384	348	879
Other interest income	1,207	439	2,089	868
Total Interest Income	147,902	153,078	296,694	304,400
INTEREST EXPENSE				
Deposits	8,685	9,498	16,581	19,899
Short-term borrowings	540	700	1,173	1,209
Long-term debt	10,779	10,815	21,477	21,583
Total Interest Expense	20,004	21,013	39,231	42,691
Net Interest Income	127,898	132,065	257,463	261,709
Provision for credit losses	3,500	13,500	6,000	28,500
Net Interest Income After Provision for Credit Losses	124,398	118,565	251,463	233,209
NON-INTEREST INCOME				
Service charges on deposit accounts	12,552	14,651	24,263	28,762
Investment management and trust services	11,339	10,601	22,297	20,697
Other service charges and fees	10,526	9,508	19,453	18,018
Mortgage banking income	5,741	10,997	9,346	19,170
Other	3,602	3,694	6,907	7,590
Investment securities gains, net:				
Net gains on sales of investment securities	1,124	2,892	1,124	5,365
Other-than-temporary impairment losses	(12)	(27)	(12)	(27)
Investment securities gains, net	1,112	2,865	1,112	5,338
Total Non-Interest Income	44,872	52,316	83,378	99,575
NON-INTEREST EXPENSE				
Salaries and employee benefits	63,623	63,490	123,189	124,702
Net occupancy expense	11,464	11,447	25,067	23,291
Other outside services	7,240	5,315	11,052	8,175
Data processing	4,331	4,509	8,127	8,412
Professional fees	3,559	3,395	6,463	6,442
Equipment expense	3,360	3,893	6,962	7,801
Software	3,209	3,094	6,134	5,842
FDIC insurance expense	2,615	3,001	5,304	5,848
Marketing	2,337	1,922	3,921	3,794
Other real estate owned and repossession expense	748	1,941	1,731	4,795
Operating risk loss	716	1,860	2,544	3,626
Intangible amortization	315	535	630	1,069
Other	12,657	12,728	24,604	24,269
Total Non-Interest Expense	116,174	117,130	225,728	228,066
Income Before Income Taxes	53,096	53,751	109,113	104,718

Income taxes	13,500	13,169	27,734	24,909
Net Income	$39,596	$40,582	$81,379	$79,809
PER SHARE:				
Net Income (Basic)	$0.21	$0.21	$0.43	$0.41
Net Income (Diluted)	0.21	0.21	0.43	0.41
Cash Dividends	0.08	0.08	0.16	0.16

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Net Income	$39,596	$40,582	$81,379	$79,809
Other Comprehensive Income (Loss), net of tax:				
Unrealized gain (loss) on securities	12,990	(36,958)	26,923	(36,833)
Reclassification adjustment for postretirement amendment gains included in net income	—	—	(944)	—
Reclassification adjustment for securities gains included in net income	(723)	(1,862)	(723)	(3,470)
Non-credit related unrealized gain on other-than-temporarily impaired debt securities	323	355	512	1,438
Unrealized gain on derivative financial instruments	34	34	68	68
Unrecognized pension and postretirement income	—	—	2,144	—
Amortization of net unrecognized pension and postretirement items	104	328	200	656
Other Comprehensive Income (Loss)	12,728	(38,103)	28,180	(38,141)
Total Comprehensive Income	$52,324	$2,479	$109,559	$41,668

See Notes to Consolidated Financial Statements

5

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2014 AND 2013

(in thousands, except per-share data)

	Common Stock						
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2013	192,652	$544,568	$1,432,974	$463,843	$ (37,341)	$(340,857)	$2,063,187
Net income				81,379			81,379
Other comprehensive income (loss)					28,180		28,180
Stock issued, including related tax benefits	381	498	763			2,809	4,070
Stock-based compensation awards			3,022				3,022
Acquisition of treasury stock	(4,000)					(49,804)	(49,804)
Common stock cash dividends - $0.16 per share				(30,234)			(30,234)
Balance at June 30, 2014	189,033	$545,066	$1,436,759	$514,988	$ (9,161)	$(387,852)	$2,099,800
Balance at December 31, 2012	199,225	$542,093	$1,426,267	$363,937	$ 5,675	$(256,316)	$2,081,656
Net income				79,809			79,809
Other comprehensive income (loss)					(38,141)		(38,141)
Stock issued, including related tax benefits	854	1,544	(455)			3,586	4,675
Stock-based compensation awards			3,207				3,207
Acquisition of treasury stock	(6,421)					(71,337)	(71,337)
Common stock cash dividends - $0.16 per share				(31,137)			(31,137)
Balance at June 30, 2013	193,658	$543,637	$1,429,019	$412,609	$ (32,466)	$(324,067)	$2,028,732

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six months ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$81,379	$79,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	6,000	28,500
Depreciation and amortization of premises and equipment	12,354	12,577
Net amortization of investment securities premiums	2,908	6,099
Investment securities gains, net	(1,112)	(5,338)
Net (increase) decrease in loans held for sale	(14,728)	6,990
Amortization of intangible assets	630	1,069
Stock-based compensation	3,022	3,207
Excess tax benefits from stock-based compensation	(52)	(148)
Decrease in accrued interest receivable	1,921	73
(Increase) decrease in other assets	(3,039)	21,847
Increase (decrease) in accrued interest payable	1,429	(1,622)
Increase (decrease) in other liabilities	3,646	(10,782)
Total adjustments	12,979	62,472
Net cash provided by operating activities	94,358	142,281
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	15,189	172,931
Proceeds from maturities of securities held to maturity	—	65
Proceeds from maturities of securities available for sale	174,619	381,807
Purchase of securities available for sale	(60,952)	(647,141)
(Increase) decrease in short-term investments	(57,357)	19,561
Net increase in loans	(74,766)	(534,760)
Net purchases of premises and equipment	(11,501)	(9,272)
Net cash used in investing activities	(14,768)	(616,809)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	104,390	55,058
Net increase (decrease) in time deposits	98,083	(281,412)
(Decrease) increase in short-term borrowings	(250,322)	751,919
Additions to long-term debt	90,000	—
Repayments of long-term debt	(5,189)	(5,086)
Net proceeds from issuance of common stock	4,018	4,527
Excess tax benefits from stock-based compensation	52	148
Dividends paid	(30,521)	(15,645)
Acquisition of treasury stock	(49,804)	(71,337)
Net cash (used in) provided by financing activities	(39,293)	438,172
Net Increase (Decrease) in Cash and Due From Banks	40,297	(36,356)
Cash and Due From Banks at Beginning of Period	218,540	256,300
Cash and Due From Banks at End of Period	$258,837	$219,944
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$37,802	$44,313
Income taxes	16,407	24,336

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – Basis of Presentation

The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the Corporation) have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The Corporation evaluates subsequent events through the filing date of this Form 10-Q with the Securities and Exchange Commission (SEC).

Recent Accounting Standards
In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Update 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASC Update 2014-08 changes the criteria for reporting discontinued operations, including a change in the definition of what constitutes the disposal of a component and additional disclosure requirements. For public business entities ASC Update 2014-08 is effective for disposals that occur within annual periods beginning after December 15, 2014. For the Corporation, this standards update is effective with its March 31, 2015 quarterly report on Form 10-Q. The adoption of ASC Update 2014-08 is not expected to have an impact on the Corporation's consolidated financial statements.

In May 2014, the FASB issued ASC Update 2014-09, "Revenue from Contracts with Customers." This standards update provides a framework that replaces most existing revenue recognition guidance. The core principle prescribed by this standards update is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC Update 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted. For the Corporation, this standards update is effective with its March 31, 2017 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the pending adoption of ASC Update 2014-09 on its consolidated financial statements.

In June 2014, the FASB issued ASC Update 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." In addition to new disclosure requirements, ASC Update 2014-11 requires that all repurchase-to-maturity transactions be accounted for as secured borrowings rather than as sales of financial assets. Also, all transfers of financial assets executed contemporaneously with a repurchase agreement with the same counterparty must be accounted for separately, the result of which would be the treatment of such transactions as a secured borrowings. ASC Update 2014-11 is effective for public business entities' interim and annual reporting periods beginning after December 15, 2014. For the Corporation, this standards update is effective with its March 31, 2015 quarterly report on Form 10-Q. The adoption of ASC Update 2014-11 is not expected to have a material impact on the Corporation's consolidated financial statements.
In June 2014, the FASB issued ASC Update 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASC Update 2014-12 clarifies guidance related to accounting for share-based payment awards with terms that allow an employee to vest in the award regardless of whether the employee is rendering service on the date a performance target is achieved. ASC Update 2014-12 requires that a performance target that affects vesting, and that could be achieved after the

requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASC Update 2014-12 is effective for public business entities' interim and annual reporting periods beginning after December 15, 2014, with earlier adoption permitted. For the Corporation, this standards update is effective with its March 31, 2015 quarterly report on Form 10-Q. The adoption of ASC Update 2014-12 is not expected to have a material impact on the Corporation's consolidated financial statements.

Reclassifications

Certain amounts in the 2013 consolidated financial statements and notes have been reclassified to conform to the 2014 presentation.

NOTE B – Net Income Per Share

Basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. Diluted net income per share is calculated as net income divided by the weighted average number of shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist of outstanding stock options, restricted stock, restricted stock units (RSUs) and performance-based restricted stock units (PSUs). PSUs are required to be included in weighted average shares outstanding if performance measures, as defined in each PSU award agreement, are met as of the end of the period.

A reconciliation of weighted average shares outstanding used to calculate basic net income per share and diluted net income per share follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
	(in thousands)			
Weighted average shares outstanding (basic)	188,139	193,273	188,799	194,777
Impact of common stock equivalents	1,043	1,073	1,033	996
Weighted average shares outstanding (diluted)	189,182	194,346	189,832	195,773

For the three and six months ended June 30, 2014, 3.3 million and 3.2 million shares issuable under stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive. For the three and six months ended June 30, 2013, 4.3 million and 4.0 million shares issuable under stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive.

NOTE C – Accumulated Other Comprehensive Income (Loss)

The following table presents changes in other comprehensive income (loss):

	Before-Tax Amount	Tax Effect	Net of Tax Amount
	(in thousands)		
Three months ended June 30, 2014			
Unrealized gain (loss) on securities	$19,984	$(6,994)	$12,990
Reclassification adjustment for securities gains included in net income (1)	(1,112)	389	(723)
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	497	(174)	323
Unrealized gain on derivative financial instruments	52	(18)	34
Amortization of net unrecognized pension and postretirement items (2)	160	(56)	104
Total Other Comprehensive Income (Loss)	$19,581	$(6,853)	$12,728
Three months ended June 30, 2013			
Unrealized gain (loss) on securities	$(56,858)	$19,900	$(36,958)
Reclassification adjustment for securities gains included in net income (1)	(2,865)	1,003	(1,862)
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	546	(191)	355
Unrealized gain on derivative financial instruments	52	(18)	34
Amortization of net unrecognized pension and postretirement items (2)	505	(177)	328
Total Other Comprehensive Income (Loss)	$(58,620)	$20,517	$(38,103)
Six months ended June 30, 2014			
Unrealized gain (loss) on securities	$41,419	$(14,496)	$26,923
Reclassification adjustment for securities gains included in net income (1)	(1,112)	389	(723)
Reclassification adjustment for postretirement gains included in net income (2)	(1,452)	508	(944)
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	788	(276)	512
Unrealized gain on derivative financial instruments	105	(37)	68
Unrecognized pension and postretirement income	3,291	(1,147)	2,144
Amortization of net unrecognized pension and postretirement items (2)	309	(109)	200
Total Other Comprehensive Income (Loss)	$43,348	$(15,168)	$28,180
Six months ended June 30, 2013			
Unrealized gain (loss) on securities	$(56,666)	$19,833	$(36,833)
Reclassification adjustment for securities gains included in net income (1)	(5,338)	1,868	(3,470)
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	2,212	(774)	1,438
Unrealized gain on derivative financial instruments	105	(37)	68
Amortization of net unrecognized pension and postretirement items (2)	1,010	(354)	656
Total Other Comprehensive Income (Loss)	$(58,677)	$20,536	$(38,141)

(1) Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included within "Investment securities gains, net" on the consolidated statements of income. See Note D, "Investment Securities," for additional details.

(2) Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included within "Salaries and employee benefits" on the consolidated statements of income. See Note H, "Employee Benefit Plans," for additional details.

The following table presents changes in each component of accumulated other comprehensive income (loss), net of tax:

	Unrealized Gains (Losses) on Investment Securities Not Other-Than-Temporarily Impaired	Unrealized Non-Credit Gains (Losses) on Other-Than-Temporarily Impaired Debt Securities	Unrealized Effective Portions of Losses on Forward-Starting Interest Rate Swaps	Unrecognized Pension and Postretirement Plan Income (Costs)	Total
	(in thousands)				
Three months ended June 30, 2014					
Balance at March 31, 2014	$(13,577)	$ 1,841	$ (2,648)	$ (7,505)	$(21,889)
Other comprehensive income (loss) before reclassifications	12,990	323	—	—	13,313
Amounts reclassified from accumulated other comprehensive income (loss)	7	(730)	34	104	(585)
Balance at June 30, 2014	$(580)	$ 1,434	$ (2,614)	$ (7,401)	$(9,161)
Three months ended June 30, 2013					
Balance at March 31, 2013	$24,878	$ 1,696	$ (2,784)	$ (18,153)	$5,637
Other comprehensive income (loss) before reclassifications	(36,958)	355	—	—	(36,603)
Amounts reclassified from accumulated other comprehensive income (loss)	(861)	(1,001)	34	328	(1,500)
Balance at June 30, 2013	$(12,941)	$ 1,050	$ (2,750)	$ (17,825)	$(32,466)
Six months ended June 30, 2014					
Balance at December 31, 2013	$(27,510)	$ 1,652	$ (2,682)	$ (8,801)	$(37,341)
Other comprehensive income (loss) before reclassifications	26,923	512	—	2,144	29,579
Amounts reclassified from accumulated other comprehensive income (loss)	7	(730)	68	(744)	(1,399)
Balance at June 30, 2014	$(580)	$ 1,434	$ (2,614)	$ (7,401)	$(9,161)
Six months ended June 30, 2013					
Balance at December 31, 2012	$26,361	$ 613	$ (2,818)	$ (18,481)	$5,675
Other comprehensive income (loss) before reclassifications	(36,833)	1,438	—	—	(35,395)
Amounts reclassified from accumulated other comprehensive income (loss)	(2,469)	(1,001)	68	656	(2,746)
Balance at June 30, 2013	$(12,941)	$ 1,050	$ (2,750)	$ (17,825)	$(32,466)

NOTE D – Investment Securities

The following table presents the amortized cost and estimated fair values of investment securities, which were all classified as available for sale:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
June 30, 2014				
Equity securities	$34,275	$11,987	$(14)	$46,248
U.S. Government securities	525	—	—	525
U.S. Government sponsored agency securities	254	6	—	260
State and municipal securities	262,368	8,244	(789)	269,823
Corporate debt securities	99,634	5,881	(4,862)	100,653
Collateralized mortgage obligations	1,022,728	8,224	(28,221)	1,002,731
Mortgage-backed securities	918,210	17,121	(4,726)	930,605
Auction rate securities	158,463	1	(11,533)	146,931
	$2,496,457	$51,464	$(50,145)	$2,497,776

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
December 31, 2013				
Equity securities	$33,922	$12,355	$(76)	$46,201
U.S. Government securities	525	—	—	525
U.S. Government sponsored agency securities	720	7	(1)	726
State and municipal securities	281,810	6,483	(3,444)	284,849
Corporate debt securities	100,468	5,685	(7,404)	98,749
Collateralized mortgage obligations	1,069,138	8,036	(44,776)	1,032,398
Mortgage-backed securities	949,328	13,881	(17,497)	945,712
Auction rate securities	172,299	234	(13,259)	159,274
	$2,608,210	$46,681	$(86,457)	$2,568,434

Securities carried at $1.8 billion as of June 30, 2014 and $1.7 billion as of December 31, 2013 were pledged as collateral to secure public and trust deposits and customer repurchase agreements.

Equity securities include common stocks of financial institutions ($40.2 million at June 30, 2014 and $40.6 million at December 31, 2013) and other equity investments ($6.0 million at June 30, 2014 and $5.6 million at December 31, 2013).

As of June 30, 2014, the financial institutions stock portfolio had a cost basis of $28.5 million and a fair value of $40.2 million, including an investment in a single financial institution with a cost basis of $20.0 million and a fair value of $28.2 million. The fair value of this investment accounted for 70.2% of the fair value of the Corporation's investments in the common stocks of publicly traded financial institutions. No other investment within the financial institutions stock portfolio exceeded 5% of the portfolio's fair value.

The amortized cost and estimated fair values of debt securities as of June 30, 2014, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$20,164	$20,226
Due from one year to five years	71,674	75,583
Due from five years to ten years	194,644	200,454
Due after ten years	234,762	221,929
	521,244	518,192
Collateralized mortgage obligations	1,022,728	1,002,731
Mortgage-backed securities	918,210	930,605
	$2,462,182	$2,451,528

The following table presents information related to the gross realized gains and losses on the sales of equity and debt securities:

	Gross Realized Gains	Gross Realized Losses	Other-than-temporary Impairment Losses	Net Gains (Losses)
Three months ended June 30, 2014	(in thousands)			
Equity securities	$—	$—	$(12)	$(12)
Debt securities	1,124	—	—	1,124
Total	$1,124	$—	$(12)	$1,112
Three months ended June 30, 2013				
Equity securities	$1,083	$(28)	$(27)	$1,028
Debt securities	1,837	—	—	1,837
Total	$2,920	$(28)	$(27)	$2,865
Six months ended June 30, 2014				
Equity securities	$1	$—	$(12)	$(11)
Debt securities	1,446	(323)	—	1,123
Total	$1,447	$(323)	$(12)	$1,112
Six months ended June 30, 2013				
Equity securities	$2,222	$(28)	$(27)	$2,167
Debt securities	3,171	—	—	3,171
Total	$5,393	$(28)	$(27)	$5,338

The other-than-temporary impairment charges for equity securities during the three and six months ended June 30, 2014 and 2013 were for investments in common stocks of financial institutions and were due to the severity and duration of the declines in the fair values of certain financial institution stocks, in conjunction with management's assessment of the near-term prospects of each specific financial institution.

The following table presents a summary of the cumulative credit related other-than-temporary impairment charges, recognized as components of earnings, for debt securities held by the Corporation at June 30, 2014 and 2013:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
	(in thousands)			
Balance of cumulative credit losses on debt securities, beginning of period	$(19,961)	$(23,079)	$(20,691)	$(23,079)
Reductions for securities sold during the period	2,746	2,468	3,472	2,468
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	1	4	5	4
Balance of cumulative credit losses on debt securities, end of period	$(17,214)	$(20,607)	$(17,214)	$(20,607)

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2014:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
State and municipal securities	$8,531	$(39)	$34,089	$(750)	$42,620	$(789)
Corporate debt securities	—	—	42,995	(4,862)	42,995	(4,862)
Collateralized mortgage obligations	33,465	(97)	677,357	(28,124)	710,822	(28,221)
Mortgage-backed securities	37,304	(45)	302,835	(4,681)	340,139	(4,726)
Auction rate securities	—	—	146,839	(11,533)	146,839	(11,533)
Total debt securities	79,300	(181)	1,204,115	(49,950)	1,283,415	(50,131)
Equity securities	2	(1)	77	(13)	79	(14)
	$79,302	$(182)	$1,204,192	$(49,963)	$1,283,494	$(50,145)

The Corporation's collateralized mortgage obligations and mortgage-backed securities have contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the decline in market value of these securities is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of June 30, 2014.

The unrealized holding losses on auction rate securities, or auction rate certificates (ARCs), are attributable to liquidity issues resulting from the failure of periodic auctions. The Corporation had previously purchased ARCs for investment management and trust customers as short-term investments with fair values that could be derived based on periodic auctions under normal market conditions. During 2008 and 2009, the Corporation purchased ARCs from these customers due to the failure of these periodic auctions, which made these previously short-term investments illiquid.

As of June 30, 2014, approximately $143 million, or 97%, of the ARCs were rated above investment grade, with approximately $6 million, or 4%, AAA rated and $102 million, or 70%, AA rated. Approximately $4 million, or 3%, of ARCs were either not rated or rated below investment grade by at least one ratings agency. Of this amount, approximately $3 million, or 59%, of the student loans underlying these ARCs have principal payments which are guaranteed by the federal government. In total, approximately $145 million, or 99%, of the student loans underlying the ARCs have principal payments that are guaranteed by the federal government.

During the six months ended 2014, the Corporation sold ARCs with a total book value of $11.9 million, with no gain or loss upon sale. As of June 30, 2014, all ARCs were current and making scheduled interest payments. Based on management's evaluations, ARCs with a fair value of $146.9 million were not subject to any other-than-temporary impairment charges as of June 30, 2014. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

For its investments in equity securities, particularly its investments in stocks of financial institutions, management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Corporation's ability and intent to hold those investments for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider those investments with unrealized holding losses as of June 30, 2014 to be other-than-temporarily impaired.

The majority of the Corporation's available for sale corporate debt securities are issued by financial institutions. The following table presents the amortized cost and estimated fair value of corporate debt securities:

	June 30, 2014		December 31, 2013	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities	$47,524	$43,186	$47,481	$40,531
Subordinated debt	47,467	50,616	47,405	50,327
Pooled trust preferred securities	2,067	4,275	2,997	5,306
Corporate debt securities issued by financial institutions	97,058	98,077	97,883	96,164
Other corporate debt securities	2,576	2,576	2,585	2,585
Available for sale corporate debt securities	$99,634	$100,653	$100,468	$98,749

The Corporation’s investments in single-issuer trust preferred securities had an unrealized loss of $4.3 million at June 30, 2014. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three or six months ended June 30, 2014 or 2013. Six of the Corporation's 20 single-issuer trust preferred securities were rated below investment grade by at least one ratings agency, with an amortized cost of $13.5 million and an estimated fair value of $12.1 million at June 30, 2014. All of the single-issuer trust preferred securities rated below investment grade were rated BB or Ba. Three single-issuer trust preferred securities with an amortized cost of $4.7 million and an estimated fair value of $3.8 million at June 30, 2014 were not rated by any ratings agency.

During the three and six months ended June 30, 2014, the Corporation sold two pooled trust preferred securities with a total amortized cost of $728,000, for a gain of $1.1 million. As of June 30, 2014, all six of the Corporation's pooled trust preferred securities, with an amortized cost of $2.1 million and an estimated fair value of $4.3 million, were rated below investment grade by at least one ratings agency, with ratings ranging from C to Ca. The class of securities held by the Corporation was below the most senior tranche, with the Corporation’s interests being subordinate to other investors in the pool. The Corporation determines the fair value of pooled trust preferred securities based on quotes provided by third-party brokers.

The amortized cost of pooled trust preferred securities is the purchase price of the securities, net of cumulative credit related other-than-temporary impairment charges, determined using an expected cash flows model. The most significant input to the expected cash flows model is the expected payment deferral rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing assets ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate.

Based on management’s evaluations, corporate debt securities with a fair value of $100.7 million were not subject to any other-than-temporary impairment charges as of June 30, 2014. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

As mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), in December 2013, five regulatory bodies issued final rulings (Final Rules) implementing certain prohibitions and restrictions on the ability of a banking entity and non-bank financial company supervised by the Federal Reserve Board to engage in proprietary trading and have certain ownership interests in, or relationships with, a "covered fund" (the so-called "Volcker Rule"). The Final Rules generally treat as a covered fund any entity that would be an investment company under the Investment Company Act of 1940 (1940 Act) but for the application of the exemptions from SEC registration set forth in Section 3(c)(1) (fewer than 100 beneficial owners) or Section 3(c)(7) (qualified purchasers) of the 1940 Act. The Final Rules also require regulated entities to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include making regular reports about those activities to regulators. Although the Final Rules provide some tiering of compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Corporation. Banking entities have until July 21, 2015 to conform their activities and investments to the requirements of the Final Rules. While the Corporation does not engage in proprietary trading or in any other activities prohibited by the Final Rules, the Corporation will continue to evaluate whether any of its investments fall within the definition of a "covered fund" and would need to be disposed of by July 21, 2015. However, based on the Corporation's evaluation to date, it does not currently expect the Final Rules will have a material effect on its business, financial condition or results of operations.

NOTE E – Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

	June 30, 2014	December 31, 2013
	(in thousands)	
Real-estate - commercial mortgage	$5,128,734	$5,101,922
Commercial - industrial, financial and agricultural	3,601,721	3,628,420
Real-estate - home equity	1,730,497	1,764,197
Real-estate - residential mortgage	1,361,976	1,337,380
Real-estate - construction	634,018	573,672
Consumer	280,557	283,124
Leasing and other	109,573	99,256
Overdrafts	3,251	4,045
Loans, gross of unearned income	12,850,327	12,792,016
Unearned income	(10,816)	(9,796)
Loans, net of unearned income	$12,839,511	$12,782,220

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of incurred losses in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of incurred losses in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for credit losses is increased by charges to expense, through the provision for credit losses, and decreased by charge-offs, net of recoveries.

The Corporation's allowance for credit losses includes: (1) specific allowances allocated to loans evaluated for impairment under the FASB's ASC Section 310-10-35; and (2) allowances calculated for pools of loans measured for impairment under FASB ASC Subtopic 450-20.

The Corporation segments its loan portfolio by general loan type, or "portfolio segments," as presented in the table under the heading, "Loans, Net of Unearned Income," above. Certain portfolio segments are further disaggregated and evaluated collectively for impairment based on "class segments," which are largely based on the type of collateral underlying each loan. For commercial loans, class segments include loans secured by collateral and unsecured loans. Construction loan class segments include loans secured by commercial real estate, loans to commercial borrowers secured by residential real estate and loans to individuals secured by residential real estate. Consumer loan class segments include direct consumer installment loans and indirect automobile loans.

The following table presents the components of the allowance for credit losses:

	June 30, 2014	December 31, 2013
	(in thousands)	
Allowance for loan losses	$191,685	$202,780
Reserve for unfunded lending commitments	1,757	2,137
Allowance for credit losses	$193,442	$204,917

The following table presents the activity in the allowance for credit losses:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
	(in thousands)			
Balance at beginning of period	$199,006	$221,527	$204,917	$225,439
Loans charged off	(11,476)	(21,383)	(21,744)	(43,489)
Recoveries of loans previously charged off	2,412	3,982	4,269	7,176
Net loans charged off	(9,064)	(17,401)	(17,475)	(36,313)
Provision for credit losses	3,500	13,500	6,000	28,500
Balance at end of period	$193,442	$217,626	$193,442	$217,626

The following table presents the activity in the allowance for loan losses by portfolio segment:

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and overdrafts	Unallocated	Total
	(in thousands)								
Three months ended June 30, 2014									
Balance at March 31, 2014	$53,757	$ 50,563	$ 32,460	$ 33,329	$ 9,842	$ 3,324	$ 2,011	$ 11,803	$197,089
Loans charged off	(2,141)	(5,512)	(1,234)	(1,089)	(218)	(449)	(833)	—	(11,476)
Recoveries of loans previously charged off	430	775	177	108	158	402	362	—	2,412
Net loans charged off	(1,711)	(4,737)	(1,057)	(981)	(60)	(47)	(471)	—	(9,064)
Provision for loan losses (1)	(2,204)	3,258	638	396	1,549	29	311	(317)	3,660
Balance at June 30, 2014	$49,842	$ 49,084	$ 32,041	$ 32,744	$ 11,331	$ 3,306	$ 1,851	$ 11,486	$191,685
Three months ended June 30, 2013									
Balance at March 31, 2013	$63,985	$ 56,672	$ 23,701	$ 33,484	$ 16,004	$ 2,286	$ 2,787	$ 21,122	$220,041
Loans charged off	(5,193)	(5,960)	(1,966)	(4,465)	(2,597)	(433)	(769)	—	(21,383)
Recoveries of loans previously charged off	1,505	756	192	116	744	406	263	—	3,982
Net loans charged off	(3,688)	(5,204)	(1,774)	(4,349)	(1,853)	(27)	(506)	—	(17,401)
	(1,601)	6,089	3,809	3,549	320	238	644	743	13,791

Provision for loan losses (1)									
Balance at June 30, 2013	$58,696	$ 57,557	$ 25,736	$ 32,684	$ 14,471	$ 2,497	$ 2,925	$ 21,865	$ 216,431
Six months ended June 30, 2014									
Balance at December 31, 2013	$55,659	$ 50,330	$ 28,222	$ 33,082	$ 12,649	$ 3,260	$ 3,370	$ 16,208	$ 202,780
Loans charged off	(3,527)	(10,637)	(2,885)	(1,935)	(432)	(1,200)	(1,128)	—	(21,744)
Recoveries of loans previously charged off	474	1,519	533	224	382	611	526	—	